



COMPLIANCE UPDATE
By Kim Slote, policy analyst

LIMITING STUDENT AND PARENT BORROWING

With the change from a two-year Cohort Default Rate to a three-year Cohort Default Rate, it is understandable that many schools are more concerned with the number of student loan borrowers they have and the amount of debt they will accumulate. As referenced in [34 CFR §668.206 \(a\)](#), a school risks losing eligibility for federal student aid if their CDR is greater than 40 percent for fiscal year 2011 or later. They can also lose eligibility if their CDR is 30 percent or greater for the three most recent years.

While it may be tempting to limit the amount students and parents borrow or to refuse to originate loans for certain categories of students, current regulations do not support these actions. Per [34 CFR §685.301 \(a\)\(8\)](#) A school may only refuse to originate a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan or may reduce the borrower's determination of need for the loan if the reason for that action is documented and provided to the borrower in writing, and if—

- The determination is made on a case-by-case basis;
- The documentation supporting the determination is retained in the student's file; and
- The school does not engage in any pattern or practice that results in a denial of a borrower's access to Direct Loans because of the borrower's race, gender, color, religion, national origin, age, disability status, or income.

Schools are not prohibited from counseling students and parents on the benefits of avoiding loans or reducing the amount they borrow. They just need to be careful not to “limit borrowing” for students or parents who are otherwise eligible. Guidance on this topic can be found in Dear Colleague Letter [GEN-11-07](#), published March 22, 2011, and in [Volume 3, Chapter 5](#), on page 3-92, of the 2014-2015 Federal Student Aid Handbook.

A significant amount of work can go into a good default management plan. The Missouri Department of Higher Education believes that helping borrowers make wise borrowing decisions and establish healthy repayment habits is critical to each borrower's success, which in turn promotes lower cohort default rates. MDHE has a default prevention team to assist schools with default prevention training, policies and procedures. If your institution is interested in developing default prevention programs please contact Marilyn Landrum at marilyn.landrum@dhe.mo.gov or 573-522-6285.